

# FY19 RESULTS PRESENTATION

17 OCTOBER 2019

Year ended 31 August 2019

BANK OF QUEENSLAND LIMITED ABN 32 009 656 740. AFSL NO 244616.

## INTRODUCTION

**Daniel Ryan** Head of Investor Relations

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## WELCOME & OVERVIEW OF RESULTS

**George Frazis** Managing Director & CEO

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## RESULT ANALYSIS & FINANCIAL DETAIL

**Matt Baxby** Chief Financial Officer

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## SUMMARY & OUTLOOK

**George Frazis** Managing Director & CEO

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## Q&A

# WELCOME & OVERVIEW OF RESULTS

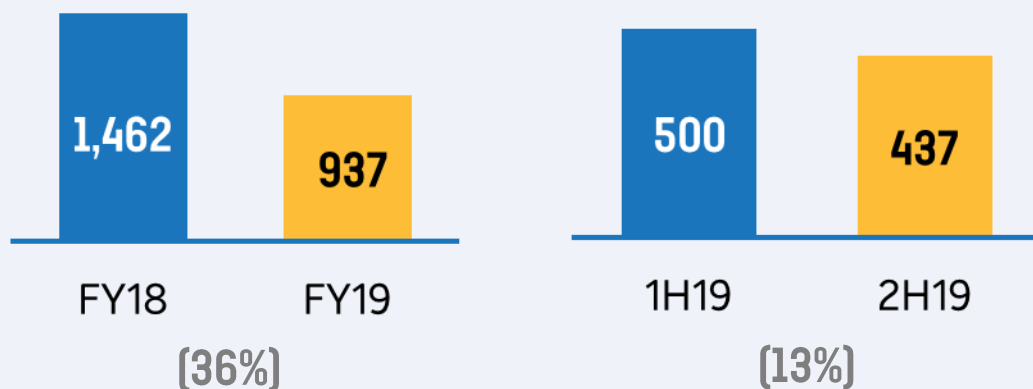
GEORGE FRAZIS  
MANAGING DIRECTOR & CEO

# RESULTS DISAPPOINTING IN A CHALLENGING ENVIRONMENT

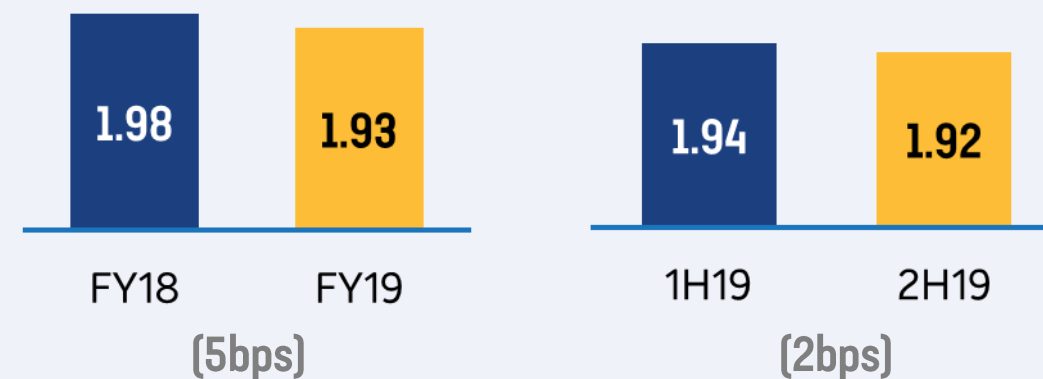
	FY19	FY19 v FY18	2H19	2H19 v 1H19
Statutory net profit after tax <sup>(1)</sup>	\$298m	(11%) ▼	\$142m	(9%) ▼
Cash earnings after tax	\$320m	(14%) ▼	\$153m	(8%) ▼
Cash return on average equity	8.3%	(160bps) ▼	7.8%	(100bps) ▼
Common Equity Tier 1 ratio	9.04%	(27bps) ▼	9.04%	(22bps) ▼
Cash earnings per share	79.6c	(16%) ▼	37.8c	(10%) ▼
Dividend per share	65c	(14%) ▼	31c	(9%) ▼

# DRIVERS OF THE RESULT

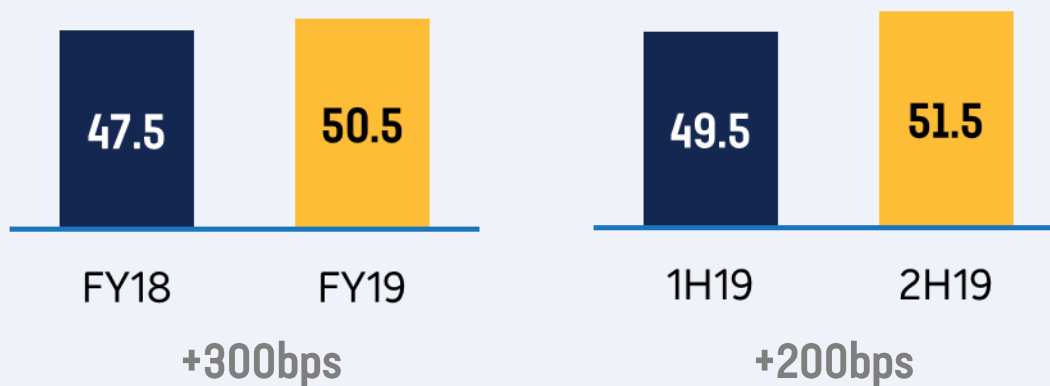
## LENDING GROWTH (\$M)



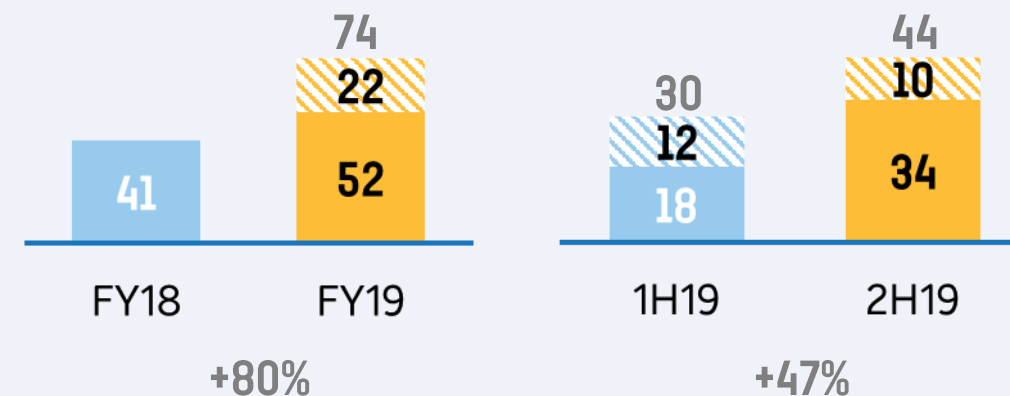
## NET INTEREST MARGIN (%)



## COST TO INCOME RATIO (%)



## LOAN IMPAIRMENT EXPENSE (\$M)



## FUNDAMENTALLY GOOD BUSINESS

- > Solid platform for differentiation
- > Growth in niche business segments
- > Virgin Money Australia momentum
- > Sound underlying asset quality
- > Solid balance sheet
- > People care about customers

## AREAS REQUIRING ATTENTION

- > Retail Bank performance
- > Lending processes
- > Rising cost structure
- > Digital and data platforms
- > Skills and capability build

- 1 Return to profitable and sustainable growth
- 2 Embed our purpose-led, customer culture
- 3 Simplify our business, improve productivity and address costs
- 4 Close digital and data gap, deliver mobile and VMA
- 5 Continue to strengthen the Bank

# RESULT ANALYSIS

MATT BAXBY  
CHIEF FINANCIAL OFFICER



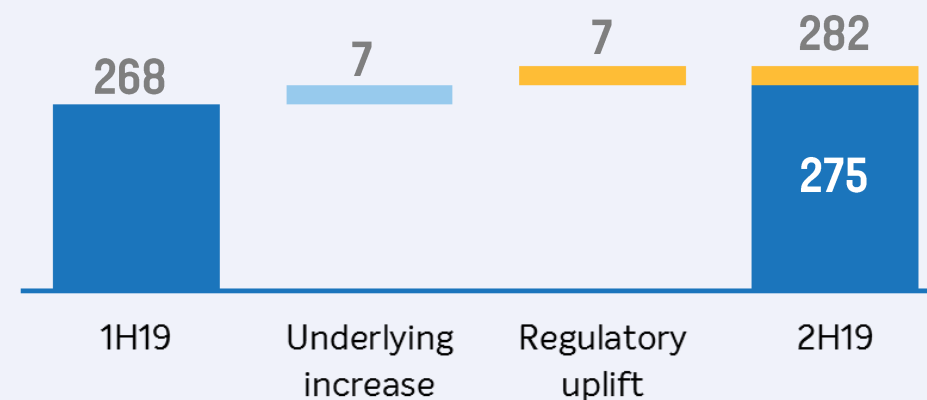
- 1 Disappointing results reflect challenging operating environment
- 2 Continued momentum in niche segments and VMA, further contraction in BOQ Retail
- 3 Good progress in foundational investments

# CHALLENGING OPERATING ENVIRONMENT

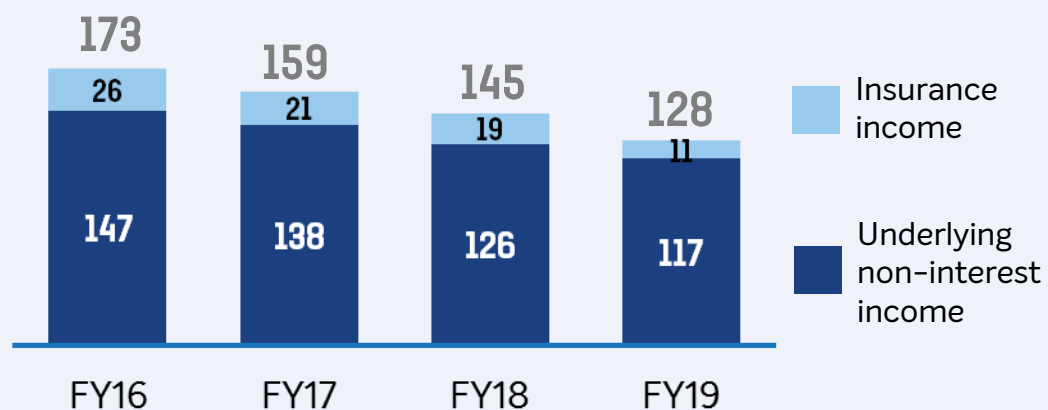
## SUMMARY

- > Slow credit demand and lower interest rates
- > Regulatory changes impacting insurance income
- > Rise in regulatory costs as flagged in 1H19
- > Loan impairment expense impacted by new AASB9 collective provision model – underlying asset quality remains sound

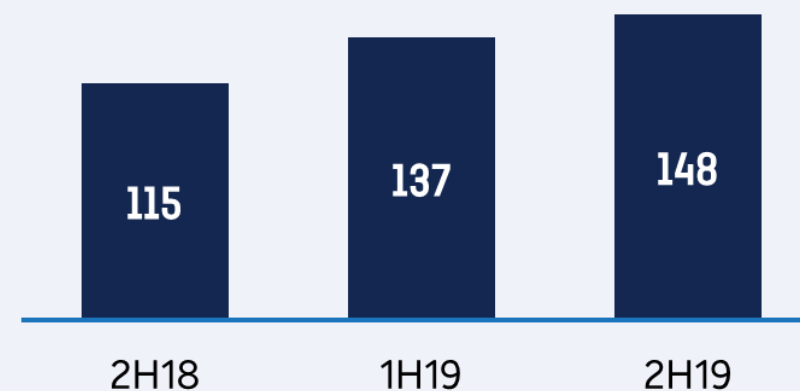
## OPERATING EXPENSES (\$M)



## UNDERLYING NON-INTEREST INCOME (\$M)<sup>(1)</sup>



## COLLECTIVE PROVISIONS (\$M)

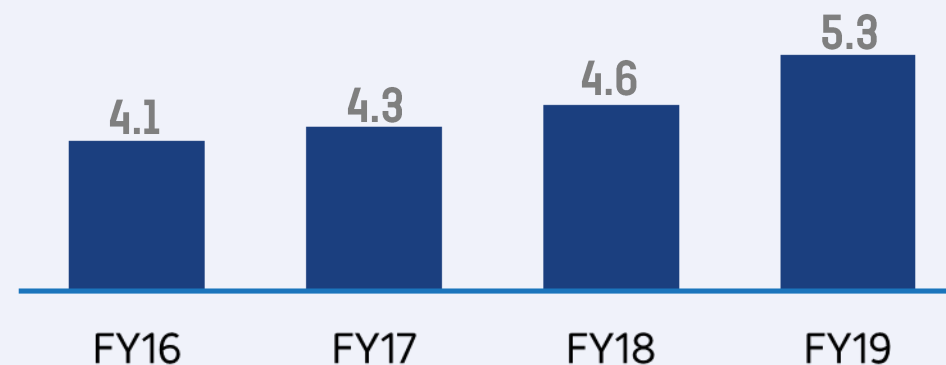


# CONTINUED MOMENTUM IN NICHE SEGMENTS AND VMA

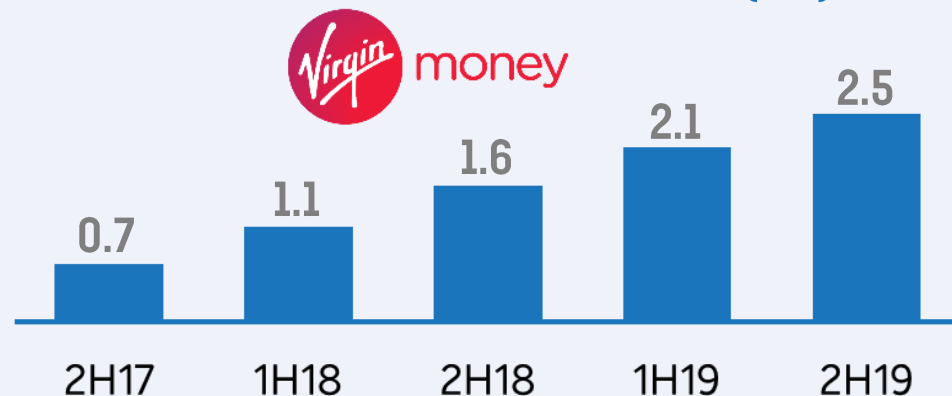
## SUMMARY

- > BOQ Finance achieved consistently strong growth
- > BOQ Specialist housing volumes also remain solid
- > VMA housing loan growth continued
- > BOQ Retail contracted further

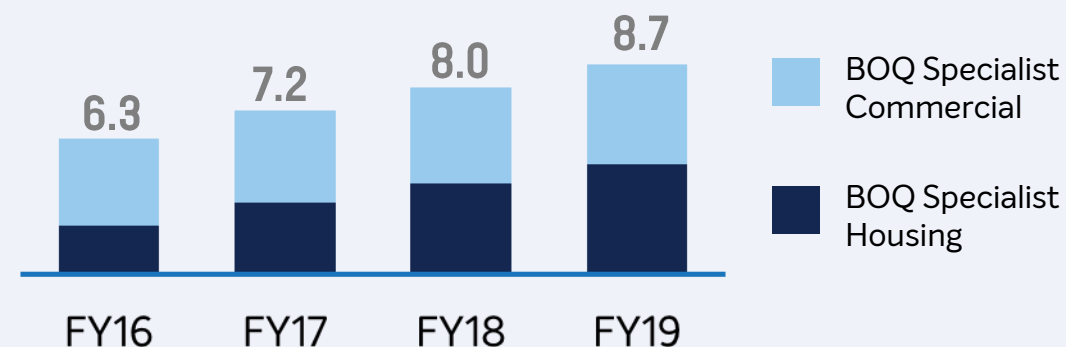
## BOQ FINANCE LENDING BALANCES (\$B)



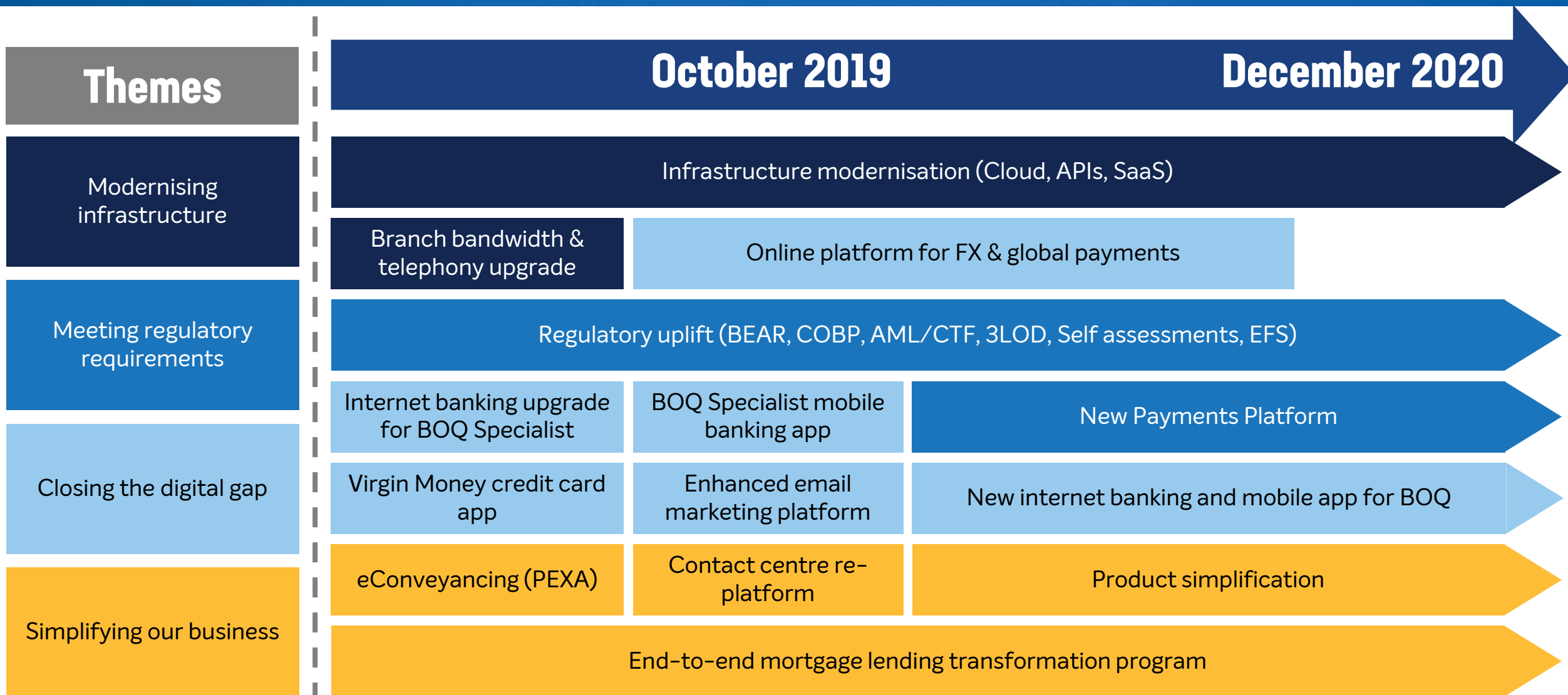
## VMA HOUSING LENDING BALANCES (\$B)



## BOQ SPECIALIST LENDING BALANCES (\$B)



# GOOD PROGRESS IN FOUNDATIONAL INVESTMENTS



# FINANCIAL DETAIL

MATT BAXBY  
CHIEF FINANCIAL OFFICER

# FINANCIAL PERFORMANCE: YEAR ON YEAR

	FY19	FY18	FY19 v FY18
Net interest income	\$961m	\$965m	(0%) ▼
Non-interest income	\$128m	\$145m	(12%) ▼
<b>Total income</b>	<b>\$1,089m</b>	<b>\$1,110m</b>	<b>(2%) ▼</b>
Operating expenses	(\$550m)	(\$527m)	4% ▲
<b>Underlying profit</b>	<b>\$539m</b>	<b>\$583m</b>	<b>(8%) ▼</b>
Loan impairment expense	(\$74m)	(\$41m)	80% ▲
<b>Cash profit before tax</b>	<b>\$465m</b>	<b>\$542m</b>	<b>(14%) ▼</b>
Income tax expense	(\$145m)	(\$170m)	(15%) ▼
<b>Cash earnings after tax</b>	<b>\$320m</b>	<b>\$372m</b>	<b>(14%) ▼</b>
<b>Statutory net profit after tax<sup>(1)</sup></b>	<b>\$298m</b>	<b>\$336m</b>	<b>(11%) ▼</b>
Cash basic earnings per share	79.6c	94.7c	(16%) ▼
Return on average tangible equity	10.8%	12.9%	(210bps) ▼

# FINANCIAL PERFORMANCE: HALF ON HALF

	2H19	1H19	2H19 v 1H19
Net interest income	\$485m	\$476m	2% ▲
Non-interest income	\$63m	\$65m	(3%) ▼
<b>Total income</b>	<b>\$548m</b>	<b>\$541m</b>	<b>1%</b> ▲
Operating expenses	(\$282m)	(\$268m)	5% ▲
<b>Underlying profit</b>	<b>\$266m</b>	<b>\$273m</b>	<b>(3%)</b> ▼
Loan impairment expense	(\$44m)	(\$30m)	47% ▲
<b>Cash profit before tax</b>	<b>\$222m</b>	<b>\$243m</b>	<b>(9%)</b> ▼
Income tax expense	(\$69m)	(\$76m)	(9%) ▼
<b>Cash earnings after tax</b>	<b>\$153m</b>	<b>\$167m</b>	<b>(8%)</b> ▼
<b>Statutory net profit after tax<sup>(1)</sup></b>	<b>\$142m</b>	<b>\$156m</b>	<b>(9%)</b> ▼
Cash basic earnings per share	37.8c	41.8c	(10%) ▼
Return on average tangible equity	10.2%	11.4%	(120bps) ▼

# SEGMENT PERFORMANCE: HALF ON HALF

	RETAIL BANKING		BOQ BUSINESS	
	2H19	2H19 v 1H19	2H19	2H19 v 1H19
Net interest income	\$217m	1%	\$266m	2%
Non-interest income	\$31m	(3%)	\$24m	(8%)
<b>Total income</b>	<b>\$248m</b>	<b>-</b>	<b>\$290m</b>	<b>1%</b>
Operating expenses	(\$146m)	4%	(\$124m)	5%
<b>Underlying profit</b>	<b>\$102m</b>	<b>(4%)</b>	<b>\$166m</b>	<b>(2%)</b>
Loan impairment expense	(\$4m)	(60%)	(\$40m)	100%
<b>Cash profit before tax</b>	<b>\$98m</b>	<b>2%</b>	<b>\$126m</b>	<b>(15%)</b>
Income tax expense	(\$31m)	3%	(\$39m)	(17%)
<b>Cash earnings after tax</b>	<b>\$67m</b>	<b>2%</b>	<b>\$87m</b>	<b>(15%)</b>

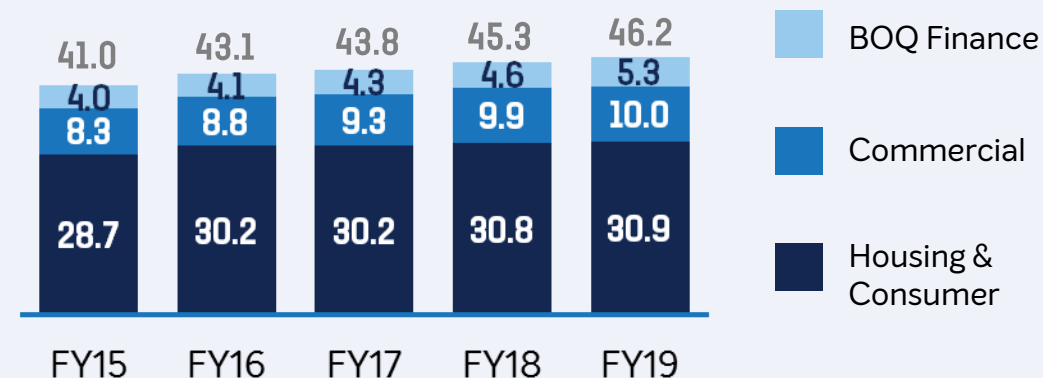


# LOAN PORTFOLIO AND GROWTH

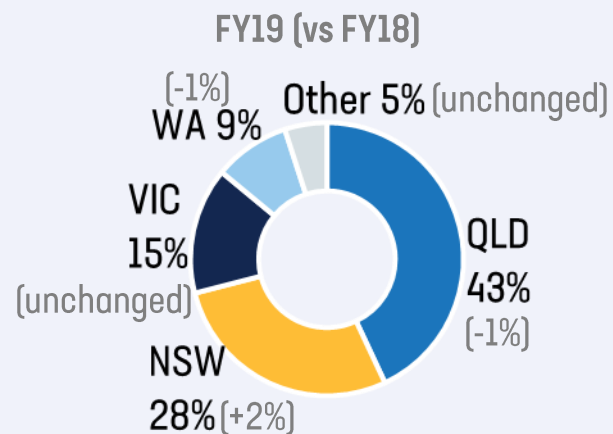
## SUMMARY

- > Gross loan growth of 2% in a slowing market
- > BOQ Finance growth of 15%
- > Housing growth through VMA and BOQ Specialist, offset by contraction in branch network
- > Maintained discipline on credit standards

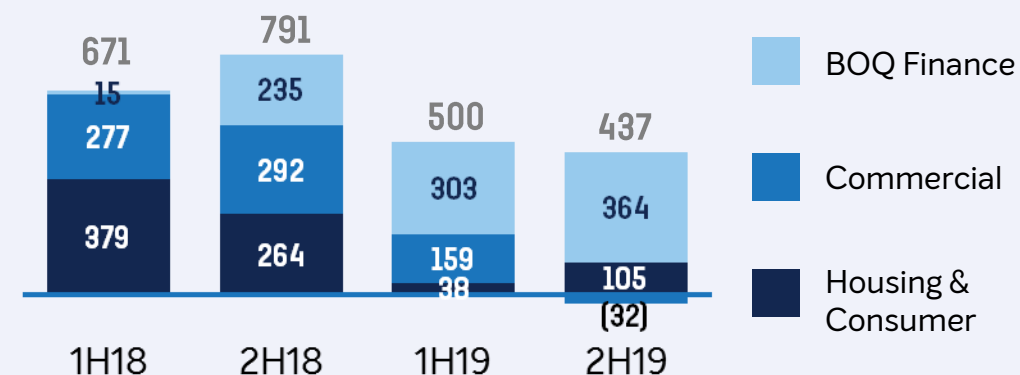
## GROSS LOANS & ADVANCES (\$B)



## TOTAL LENDING GEOGRAPHIC MIX



## HALF YEARLY GROWTH COMPOSITION (\$M)

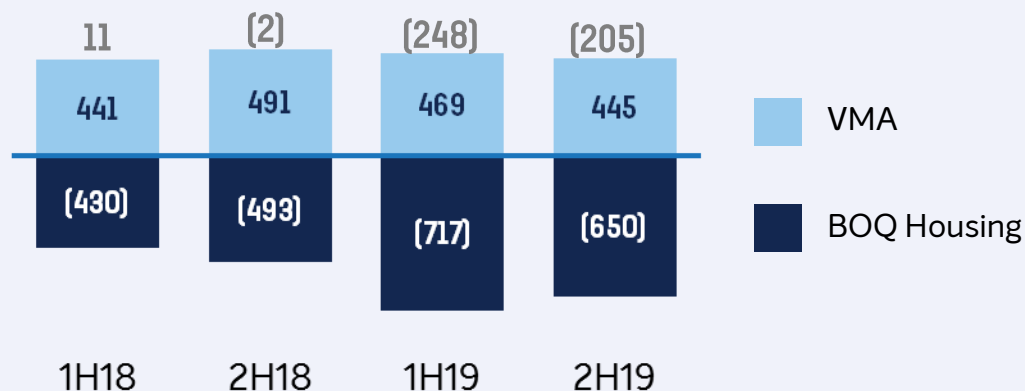


# SEGMENT PERFORMANCE

## RETAIL BANKING SUMMARY

- > Continued growth through Virgin Money Australia
- > Branch network contraction
- > Risk discipline maintained

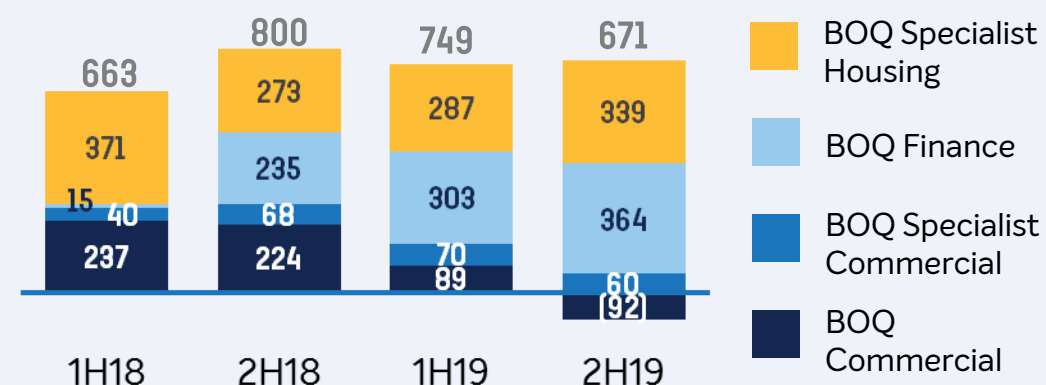
## RETAIL HOUSING LOAN GROWTH BY CHANNEL (\$M)



## BOQ BUSINESS SUMMARY

- > BOQ Finance delivered strong growth through equipment, dealer and structured finance programs
- > BOQ Specialist mortgage growth remains strong
- > Niche segment growth of \$237m
- > Paydown of large exposures constrained BOQ Commercial growth

## BOQ BUSINESS LOAN GROWTH BY CHANNEL (\$M)



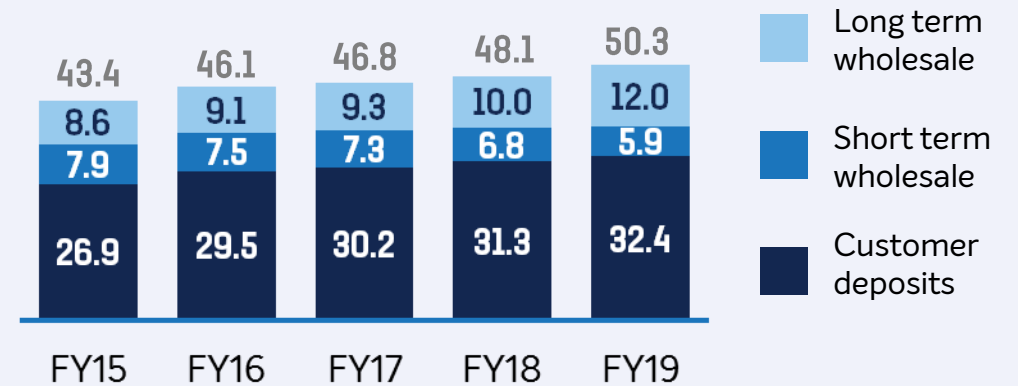
## SUMMARY

- > \$1.1b growth in customer deposits, predominantly through savings and investment accounts
- > Deposit to loan ratio of 70%
- > Took advantage of favourable conditions for long term wholesale issuance

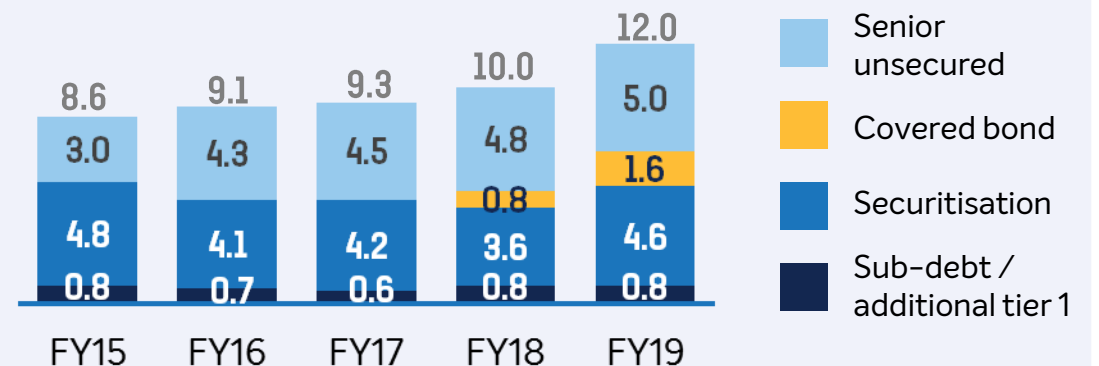
## SUCCESSFUL NEW PRODUCT LAUNCHES

- > Fast Track Starter and Fast Track Saver accounts launched in late 2018
- > Attractive rates for savings accounts linked to transaction account
- > Strong customer acquisition evident since launch
- > Particularly good growth in younger customer segments

## OVERALL FUNDING MIX (\$B)

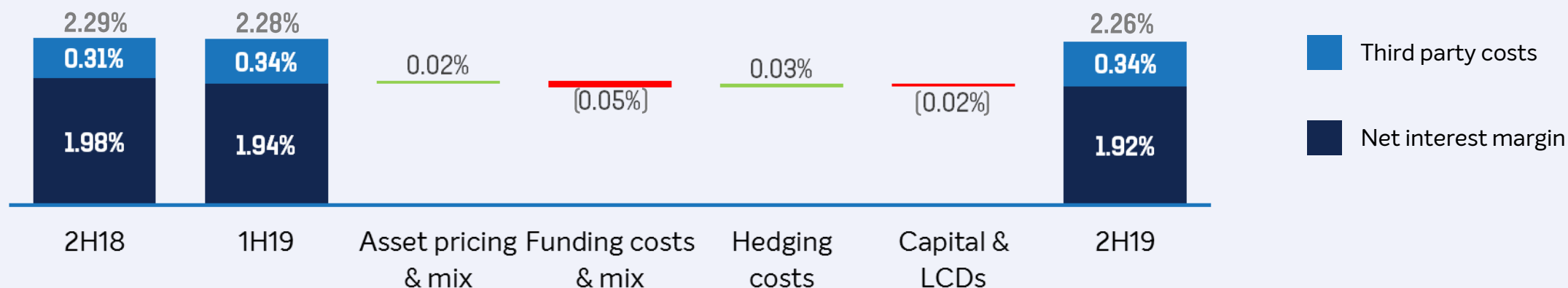


## LONG TERM WHOLESALE FUNDING (\$B)



# NET INTEREST MARGIN

## NET INTEREST MARGIN MOVEMENTS 1H19 TO 2H19



## 2H19 CONSIDERATIONS

- > Asset pricing benefits from January & July 2019
- > Hedging cost headwind has become a tailwind
- > Front book vs back book impact ongoing
- > Funding costs impacted by higher TD spreads
- > Capital & LCDs impacted by lower yield curve

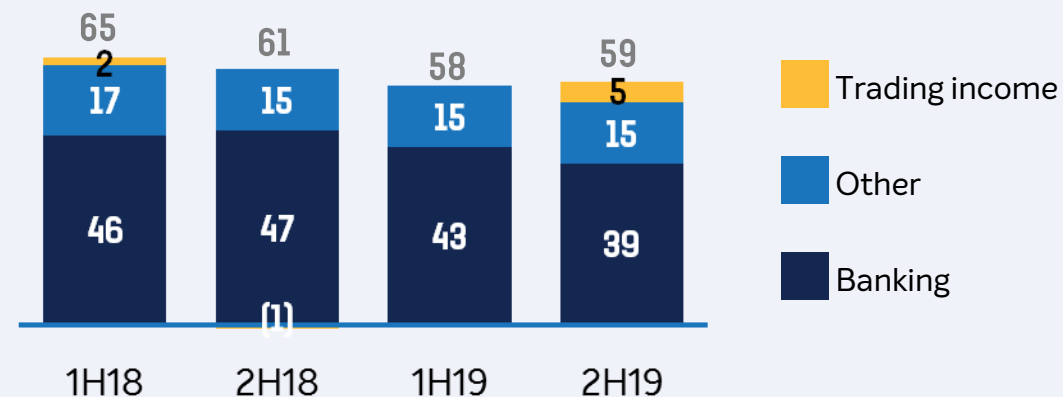
## SUMMARY OF KEY MOVING PARTS

Element	2H18	1H19	2H19
Asset pricing benefits	+2bps	+4bps	+6bps
Front book pricing & mix	(5bps)	(4bps)	(4bps)
Funding costs & mix	+4bps	+2bps	(5bps)
Hedging costs	(2bps)	(3bps)	+3bps
Capital & LCDs	-	(1bp)	(2bps)

## BANKING, TRADING & OTHER INCOME

- > Ongoing pressure on banking fees
- > Step down impact from merchant migration now embedded
- > Better half for trading income generation
- > Improved contribution from Virgin Money Australia

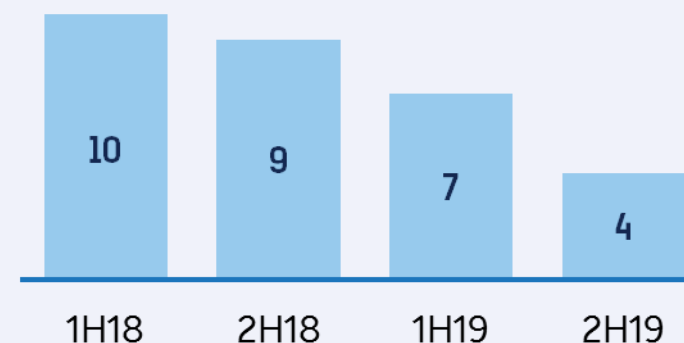
## BANKING, TRADING & OTHER INCOME (\$M)



## INSURANCE - ST ANDREW'S

- > Reduced contribution in 2H19
- > Cessation of Consumer Credit Insurance sales
- > Continue to serve existing customers
- > Options to maximise value being considered on an ongoing basis

## INSURANCE INCOME (\$M)

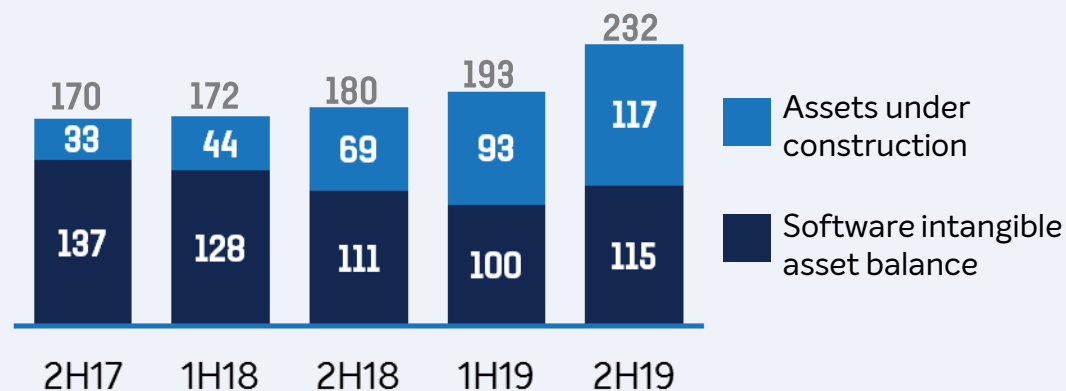


# OPERATING EXPENSES

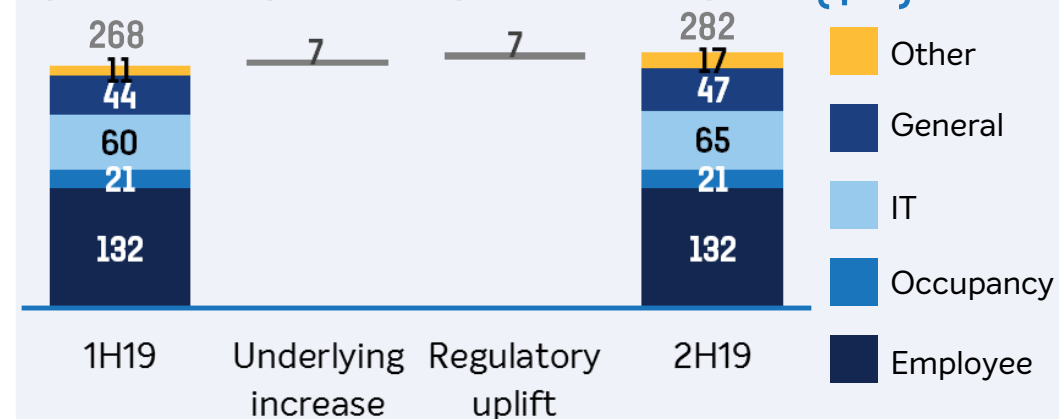
## SUMMARY

- > Expense growth of 4%; CTI 50.5%
- > Underlying expense uplift reflects heightened regulatory and compliance requirements called out in 1H19
- > Higher amortisation and ongoing regulatory costs into FY20

## CARRYING VALUE OF INTANGIBLE ASSETS (\$M)



## OPERATING EXPENSE BREAKDOWN (\$M)



## EXPENSE OUTLOOK

- > Regulatory uplift to continue through FY20
- > Higher amortisation from increased investment
- > Launch costs for VMA digital bank likely Q4 FY20 / Q1 FY21
- > Operating model review underway

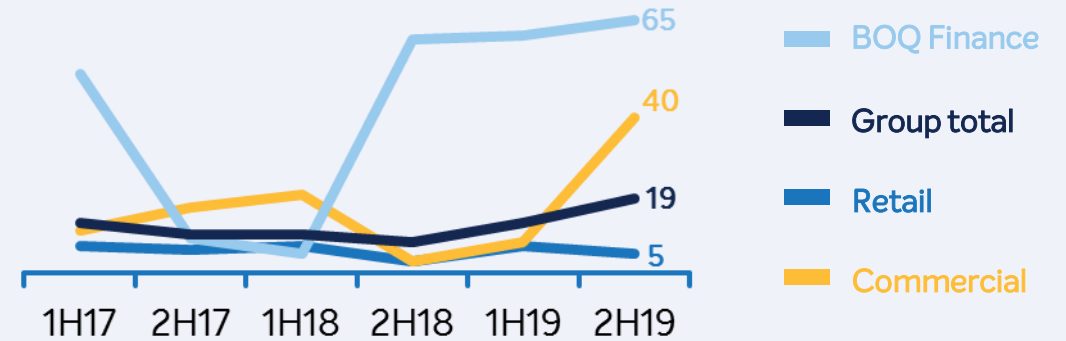
# NON-CASH EARNINGS ITEMS

	FY19	FY18
<b>Cash earnings after tax</b>	<b>\$320m</b>	<b>\$372m</b>
Amortisation of acquisition fair value adjustments	(\$6m)	(\$7m)
Hedge ineffectiveness	(\$8m)	(\$3m)
Integration / transaction costs	(\$1m)	(\$1m)
Extraordinary regulatory /compliance	(\$6m)	(\$9m)
Software changes	-	(\$11m)
Legacy items	(\$1m)	(\$5m)
<b>Statutory net profit after tax</b>	<b>\$298m</b>	<b>\$336m</b>

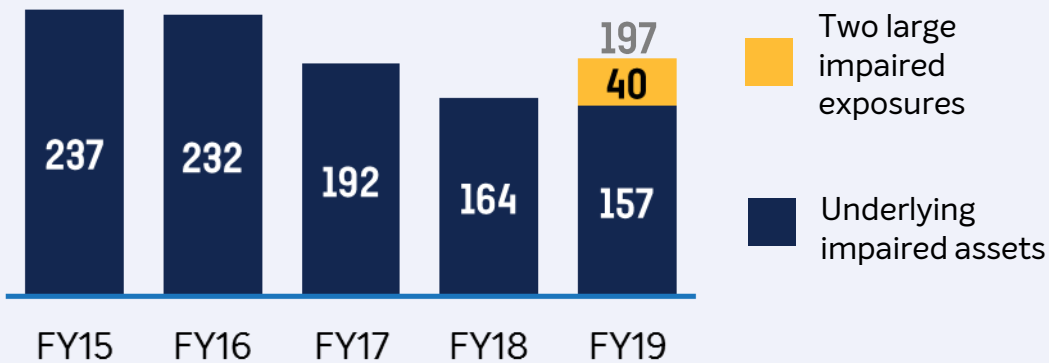
## SUMMARY

- > Portfolio metrics remain sound
- > Application of new Collective Provisioning model under AASB9 and model adjustments were the key drivers of higher impairment expense
- > Impaired assets increased due to two large exposures

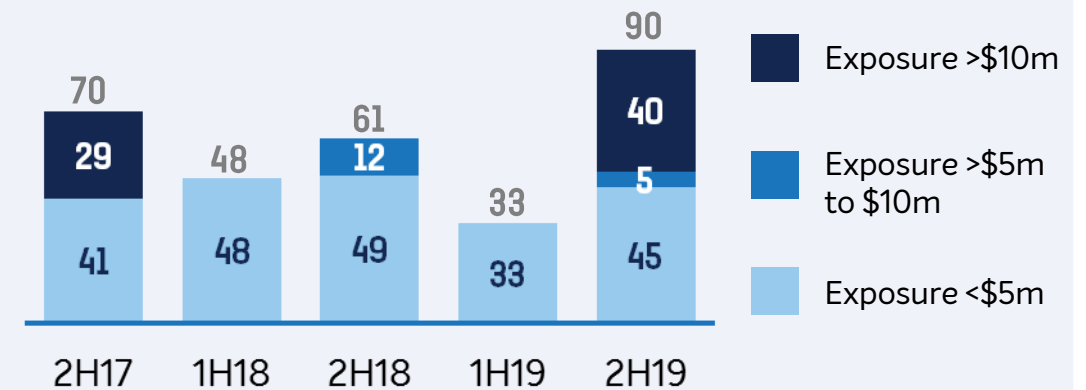
## LOAN IMPAIRMENT EXPENSE BY PRODUCT (bps)<sup>(1)</sup>



## IMPAIRED ASSETS (\$M)



## NEW IMPAIRED ASSETS (\$M)



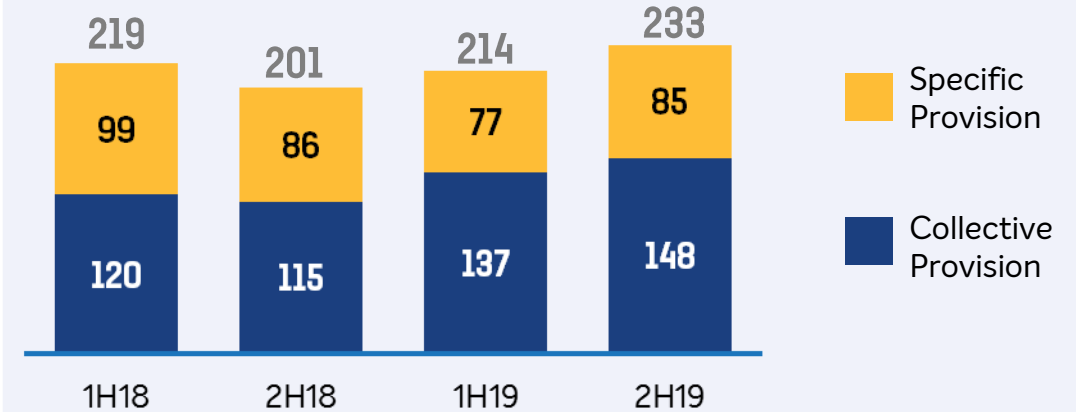


# PROVISION COVERAGE

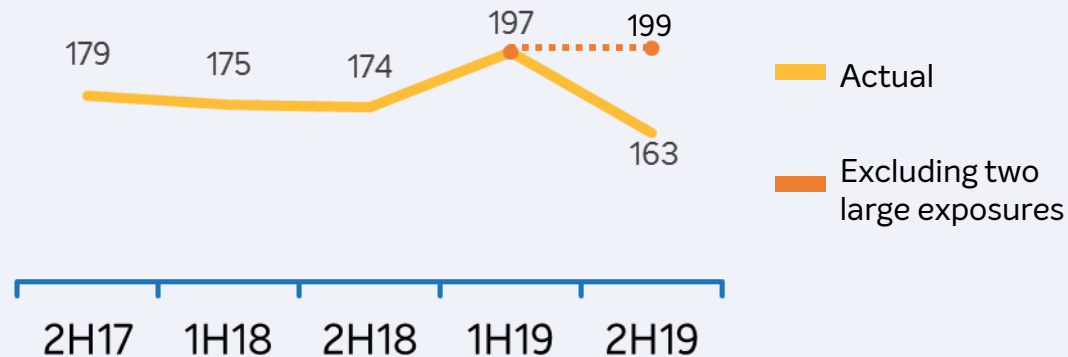
## SUMMARY

- > Collective Provision increased 29% from 2H18, driven by application of new model under AASB 9
- > Specific Provision increased 10% from 1H19, driven by a small number of large exposures in 2H19

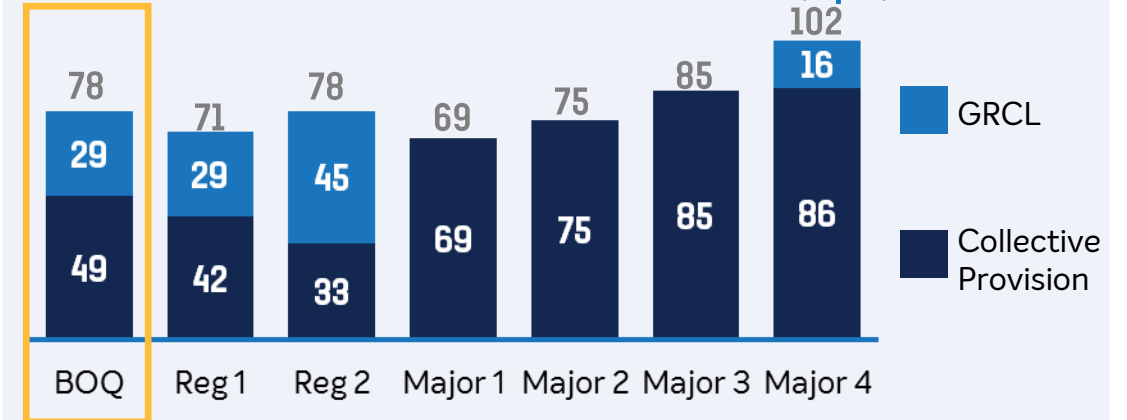
## PROVISION BALANCES (\$M)



## TOTAL PROVISIONS & GRCL / IMPAIRED ASSETS (%)<sup>(1)</sup>



## PROVISIONING COVERAGE VS PEERS (bps)<sup>(2)</sup>



(1) Excluding two large exposures, 2H19 Total Provisions & GRCL / Impaired Assets is 199%.

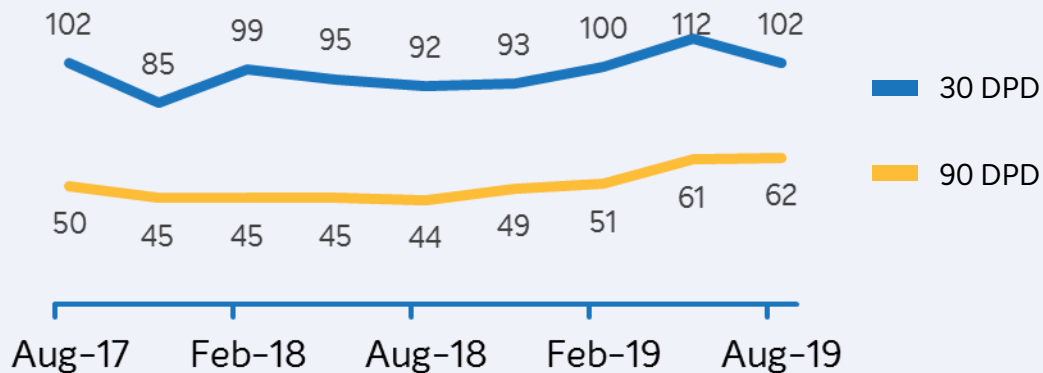
(2) Collective Provision and GRCL as a proportion of risk-weighted assets.

# ARREARS

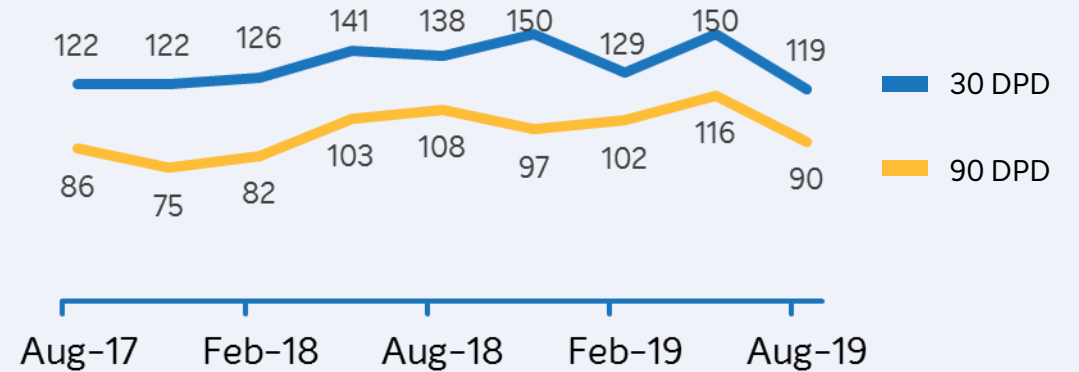
## SUMMARY

- > Arrears level remain low across all portfolios
- > Small increase in 90 DPD Housing and BOQ Finance
- > No areas of concern emerging

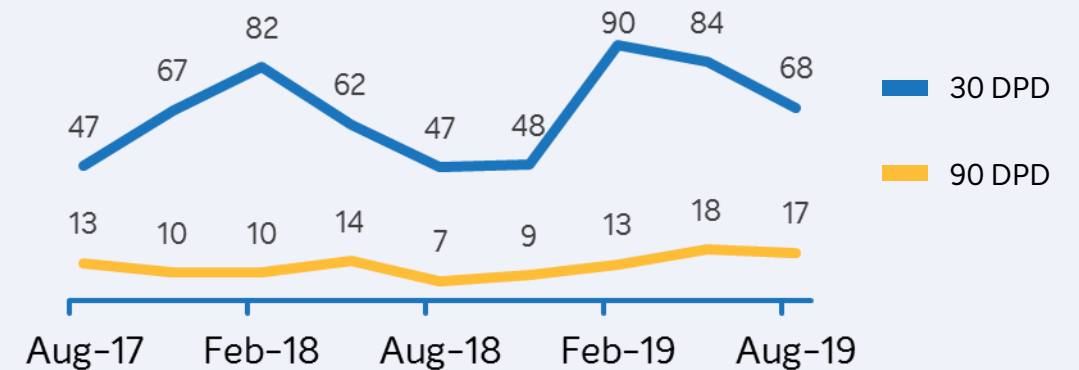
## HOUSING ARREARS (bps)



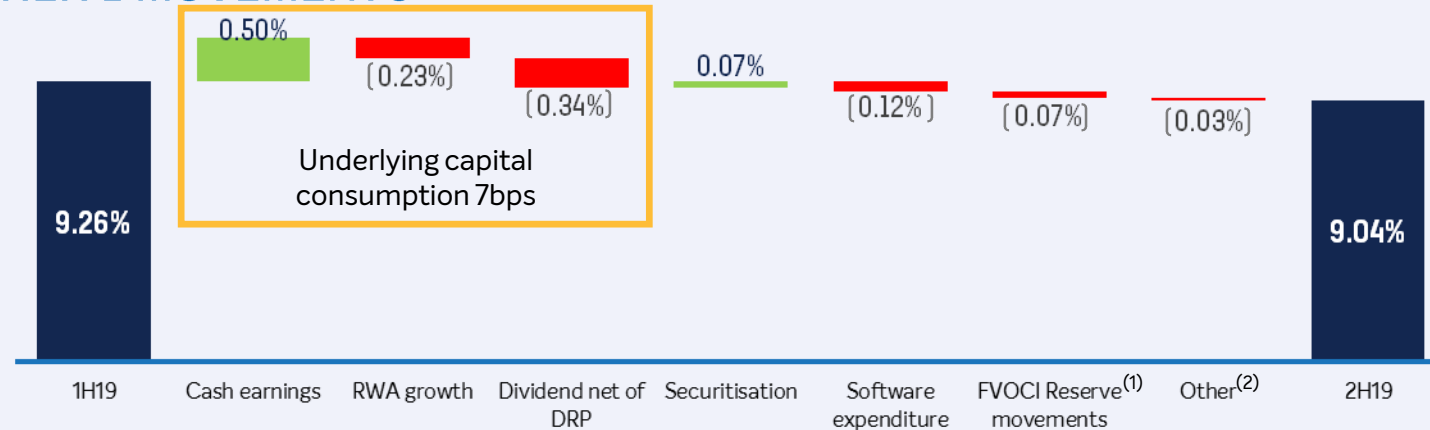
## COMMERCIAL ARREARS (bps)



## BOQ FINANCE ARREARS (bps)



## COMMON EQUITY TIER 1 MOVEMENTS



## SUMMARY

- > 9.04% Common Equity Tier 1 ratio
- > Underlying capital consumption of 7bps
- > Mix of asset growth tilted to higher risk-weighted business lines
- > Increased investment spend reduced CET1 by 12bps

## OUTLOOK

- > Remain appropriately capitalised
- > Well positioned for unquestionably strong
- > Focus on restoring organic capital generation including RWA optimisation
- > Capital calibration subject to regulatory clarity

- > Final dividend of 31 cents; full year dividend 65 cents
- > Prudent approach taken enables adequate capital generation to support RWA growth and investment
- > DRP supports higher payout ratio and distribution of franking credits

# SUMMARY & OUTLOOK

GEORGE FRAZIS  
MANAGING DIRECTOR & CEO

## Households

- > Labour market strong, but wages growth remains constrained
- > Consumer confidence weaker
- > House price outlook stabilising, although mixed across regions
- > Recent approvals data suggests housing credit growth is bottoming

## Businesses

- > Business conditions weaker – particularly for SMEs, also impacted by tightening of lending in mortgages
- > Business credit stronger, but driven by larger firms
- > Slowing global economy and trade wars add to uncertainty
- > Company balance sheets generally in good shape

# HIGH LEVEL PRIORITIES

## 1 Return to profitable and sustainable growth

- > Optimise revenue and margin
- > Fix lending processes
- > Lift distribution performance
- > Profitably grow customer base

## 2 Embed our purpose-led, customer culture

- > Build our peoples' skills and capability
- > Quality appointments to key executive positions
- > Improving customer experience

## 3 Simplification and productivity

- > Structural productivity and operating model review
- > Simplify and reduce number of products
- > Migration to cloud, simplify IT platforms
- > Address costs

## 4 Close digital and data gap

- > Deliver new BOQ-branded front end digital/mobile offering
- > Ensure Virgin Money Australia digital bank milestones are met
- > Improve data and analytics platforms and capability

## 5 Continue to strengthen the Bank

- > Strong risk and compliance standards
- > Solid liquidity and funding
- > Segment by segment analysis to optimise RWAs
- > Strong balance sheet

# VIRGIN MONEY AUSTRALIA DIGITAL BANK INVESTMENT

## SUMMARY

- > Building on the strong momentum of VMA
- > Successful completion of stage 1 digital bank proof of concept; Now planning full build and implementation
- > Investing in long term value creation; move towards a common cloud based platform

## DIGITAL BANK DELIVERY

- > ~\$30m capital expenditure required in FY20 to complete phase 1 build; targeting launch in late 2020
- > Will require higher operating expenses from launch but expected to deliver compelling long term value creation
- > Further detail to be provided at strategy update in February 2020





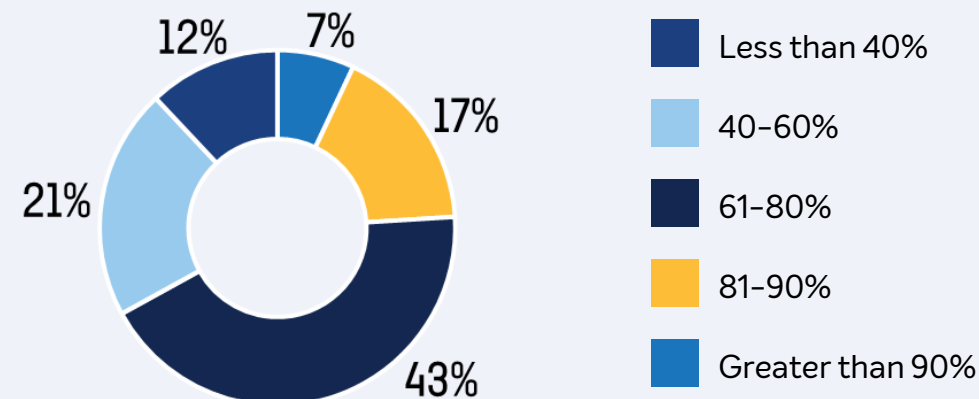
- 1 FY19 performance disappointing
- 2 Decisive action being taken to improve our performance
- 3 We anticipate lower year on year cash earnings in FY20
  - > FY20 will be another tough year as we transition
  - > Revenue & impairments broadly in line with FY19, subject to market conditions
  - > Costs growing due to regulatory compliance and increased technology investment
- 4 Transformation strategy update planned for late February 2020
  - > Fundamentally good business with a sound platform for differentiation
  - > Focus on business simplification and productivity improvement
  - > Strategic investment underway in Virgin Money Australia and BOQ
  - > Clear objective of returning to profitable and sustainable growth

# APPENDICES

## SUMMARY

- > Broker settlements 29% including VMA
- > Owner occupied P&I loans represent 53% of portfolio

## HOUSING PORTFOLIO LVR BANDS



## PORTFOLIO METRICS

Metrics (%)	2H18	1H19	2H19
Owner occupied	59	59	60
Investment	41	41	40
Interest only	29	25	25
Broker originated <sup>(1)</sup>	15	17	18
Weighted avg LVR	67	66	66
Line of credit	6	6	5
Avg loan balance	\$280k	\$274k	\$290k
Variable rate	74	77	78
Fixed rate	26	23	22

## SETTLEMENT METRICS

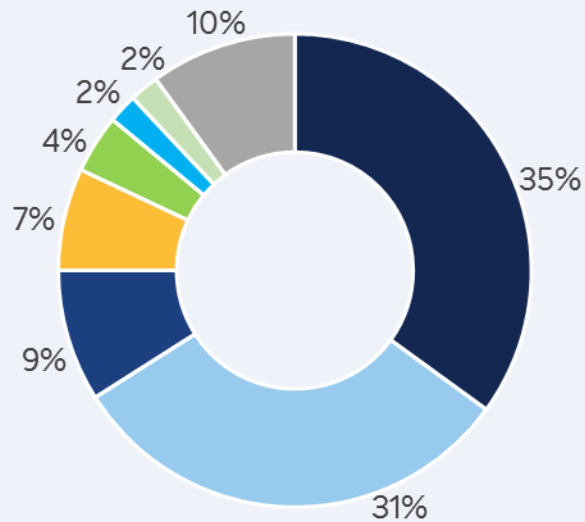
Metrics (%)	2H18	1H19	2H19
Owner occupied	61	61	66
Investment	39	39	34
Interest only <sup>(2)</sup>	14	16	24
Broker originated <sup>(1)</sup>	30	30	29
Weighted avg LVR	69	68	68
Line of credit	1	1	1
Avg loan balance	\$408k	\$408k	\$402k
Variable rate	80	84	77
Fixed rate	20	16	23

(1) Includes Virgin Money

(2) 2H19 includes construction loans which were previously reported as P&I but have been reclassified as Interest Only. The comparative metric for 1H19 would be 21%

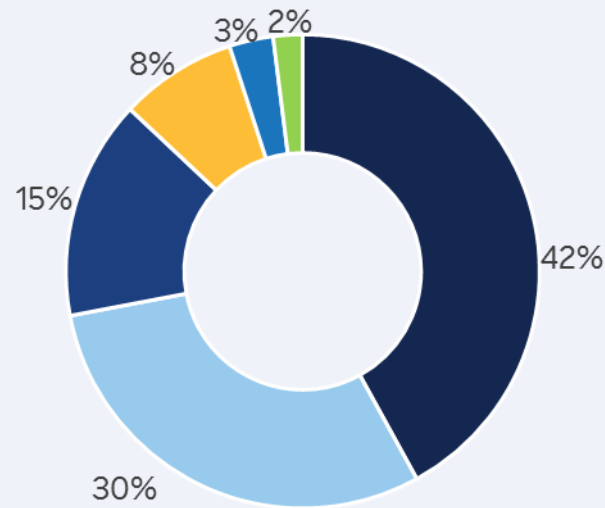
# COMMERCIAL PORTFOLIO

## PORTFOLIO BY INDUSTRY



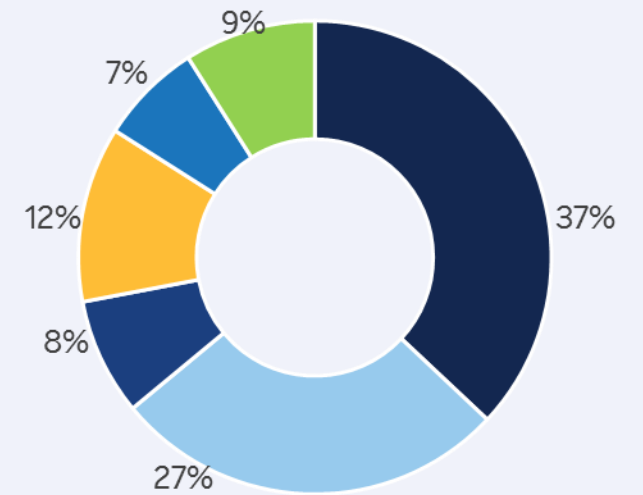
- Property & construction
- Healthcare
- Professional services
- Hospitality & accommodation
- Agriculture
- Manufacturing & Mining
- Retail
- Other

## PORTFOLIO BY STATE



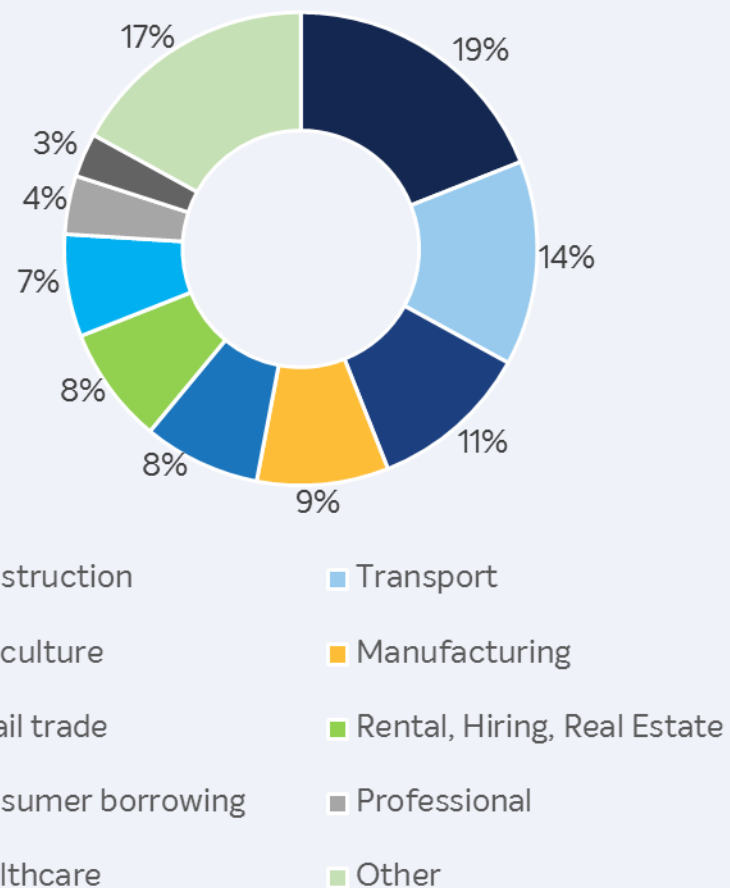
- QLD
- NSW
- VIC
- WA
- SA
- Other

## PORTFOLIO BY EXPOSURE SIZE

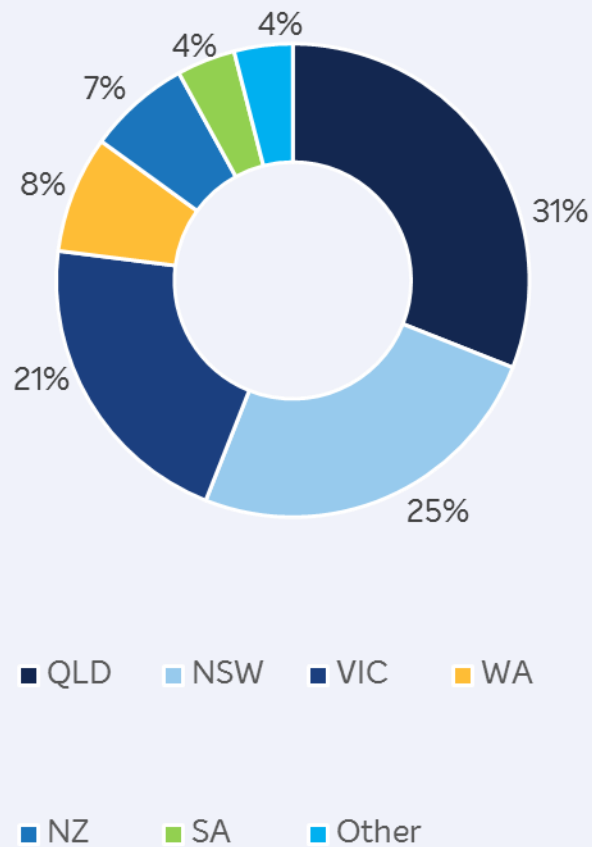


- <\$1m
- \$1m-\$5m
- \$5m-\$10m
- \$10m-\$25m
- \$25m-\$50m
- \$50m+

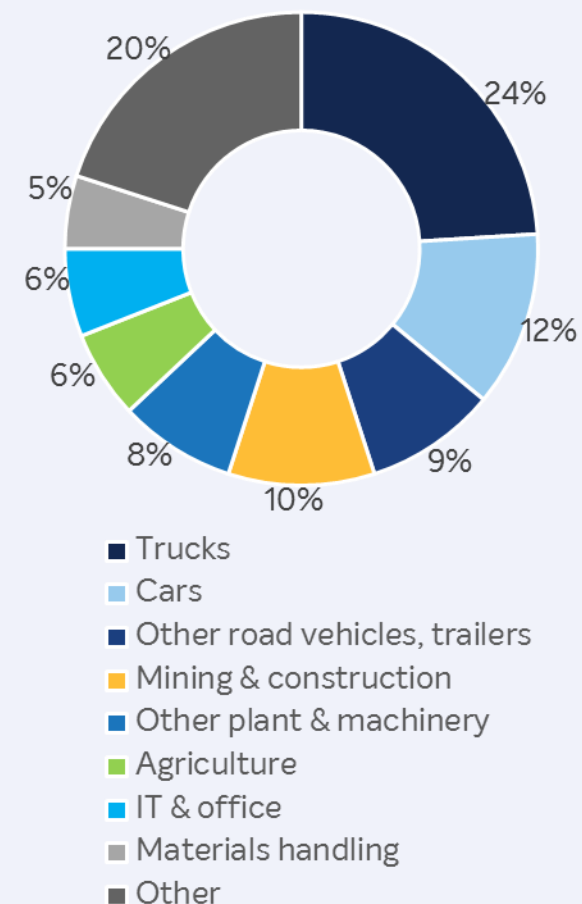
## ASSET BY INDUSTRY



## ASSET BY STATE



## ASSET BY TYPE



# LIMITED EXPOSURE TO HIGH RISK SECTORS

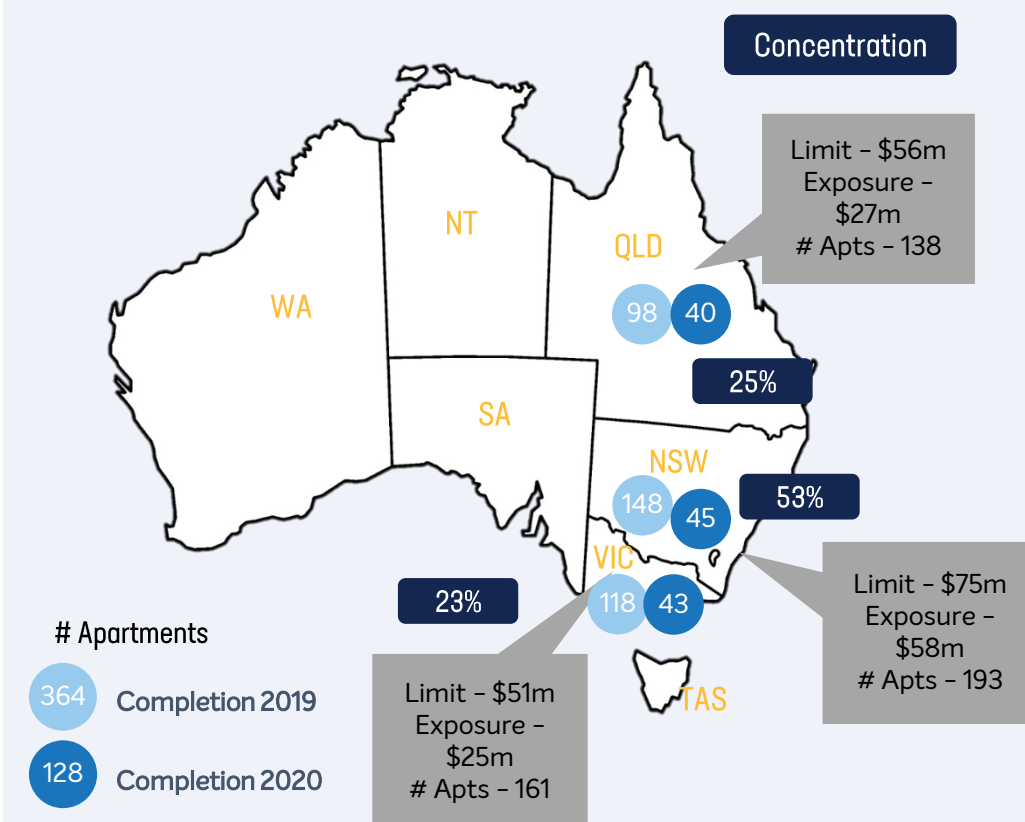
## APARTMENT CONSTRUCTION EXPOSURES

- > \$110m current exposure to residential construction
- > 14 developments across 3 states, completing 2019 through 2020
- > Well diversified intra-state within NSW and VIC

## OTHER HIGH RISK SECTORS

- > No material regional housing exposures
- > No systemic issues emerging
- > Direct mining exposure <\$130m

## LENDING TO RESIDENTIAL APARTMENT CONSTRUCTION



# OUTLOOK DEPENDENT ON:

- > Changes in cash rate and bank bill swap rate
- > Competitive actions
- > Unemployment rate
- > Consumer and business confidence
- > House prices
- > Pace of change of technology and customer preferences
- > Potential regulatory changes
- > Economic growth

# ABBREVIATIONS

1H: First half of financial year

2H: Second half of financial year

3LOD: Three lines of defence

30DPD: 30 days past due

90DPD: 90 days past due

AASB: Australian Accounting Standards Board

ADI: Authorised Deposit-taking Institution

AML/CTF: Anti-Money Laundering/Counter-Terrorism Financing

APRA: Australian Prudential Regulation Authority

APS: ADI Prudential Standards

Apts: Apartments

ASIC: Australian Securities & Investments Commission

AT1: Additional Tier One

AUSTRAC: Australia's financial intelligence agency

Avg: Average

BDD: Bad & Doubtful Debt Expense

BEAR: Banking Executive Accountability Regime

bps: basis points

CAGR: Compound annual growth rate

CET1: Common Equity Tier 1

COBP: Code of Banking Practice

cps: Cents per share

CTI: Cost-to-income ratio

DPD: Days past due

DRP: Dividend Reinvestment Plan

DTA: Deferred tax asset

EFS: Economic and Financial Statistics

EPS: Earnings per share

FVOCI: Fair value through other comprehensive income

FY: Financial year

GLA: Gross Loans & Advances

GRCL: General Reserve for Credit Losses

IRB: Internal Ratings-Based approach to credit risk

LCD: Low cost deposit

LOC: Line of Credit

LVR: Loan to valuation ratio

MFI: Main Financial Institution

NIM: Net Interest Margin

OMB: Owner Managed Branch

P&I: Principal & interest

PCP: Prior corresponding period

ROE: Return on equity

ROTE: Return on tangible equity

RWA: Risk-weighted assets

SME: Small and Medium Enterprises

TD: Term deposit

VMA: Virgin Money Australia



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